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Buffalo Oil
Company Limited

ANNUAL REPORT

2003

ANNUAL AND SPECIAL MEETING

The annual and special meeting of shareholders of Buffalo Oil Company Limited will be held in the offices of McCarthy Tétrault, Suite 3300, 421 – 7th Avenue S.W., Calgary, Alberta at 3:00 p.m. MDT. on Friday, June 11, 2004.



REPORT ON OPERATIONS

Buffalo enjoyed a good year in 2003. Production increased by 17% over 2002, to 75 barrels of oil equivalent per day ("boed"). This increase, together with favourable commodity prices and strict operational cost controls yielded net income of \$113,096 or \$0.02 per share. Cash flow from operations, before changes in working capital items, improved to \$424,563 or \$0.06 per share in 2003, compared with \$249,824 or \$0.04 per share in 2002.

Buffalo participated for a 10.9% working interest in the drilling of a horizontal oil well at Midale in the second quarter of 2003. The well commenced production at 150 boed and is producing at a rate of approximately 25 boed (net 2 boed to Buffalo). In the third quarter, an oil well at Steelman 3-30 in which Buffalo has a 58.3% working interest was electrified and placed on production. This well came on production at 9 boed (net 5 boed to Buffalo) but the well had to be shut in through the winter due to production and access problems. During 2003, two wells were drilled on on Buffalo's farm-out lands at Midale, resulting in a dual-leg horizontal oil well and a vertical oil well. Buffalo retained a 5 – 15% gross overriding royalty, convertible upon payout to a 17.6% working interest in these wells. Total production from these two wells is currently approximately 33 boed (net royalty to Buffalo of 2 boed). At the December 2003 crown land sale, Buffalo acquired a 100% interest in a half section of land at Heward. This land is currently being evaluated. Buffalo acquired a 50% interest in a quarter section of land at Glen Ewen, at the February 2004 crown land sale. This land has since been farmed out for a 5 – 15% gross overriding royalty in a well that is to be drilled during 2004.

In August 2003, Buffalo sold its interest in the Steelman North property for \$200,000 cash and a 2% gross overriding royalty on future production. This cash injection allowed the Company to pay down supplier payable balances, thereby significantly improving the strength of the balance sheet.

On March 30, 2004, an investor group led by a private company, Fogo Resources Inc., purchased 19.7% of the Company's issued and outstanding common shares in a private transaction. The Company underwent a change of management and I was appointed Chief Executive Officer and Chairman of the Board of Directors, Edward W. Bogle was appointed as a Director and Trevor G. Penford was appointed President and Chief Financial Officer of the Company. The head office was relocated to Calgary, Alberta. We look forward to working with our partners, service providers and shareholders.

At that time, Glenn Newhouse, President and Director, and Kevin Patterson, Director, resigned their positions with the Company. Shirley Newhouse also resigned as an officer but continued as a Director of the Company along with Robert Hammond. These individuals, in their roles as directors and management, have invested considerable effort for the benefit of all shareholders and have had a significant impact in developing Buffalo's operations and business to its present level. I would like to express my appreciation for their advice and counsel as the Company has undergone its transition.

BY ORDER OF THE BOARD

Signed "W. A. Trickett"

William A. (Bill) Trickett
Chairman and Chief Executive Officer
May 14, 2004



MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2003 and 2002

The following discussion and analysis of the results of operations and financial condition for the years ended December 31, 2003 and 2002 should be read in conjunction with the financial statements and accompanying notes.

DESCRIPTION OF BUSINESS

Buffalo Oil Company Limited (the "Company" or "Buffalo") is engaged in the acquisition, exploration, development and production of oil and natural gas from properties in south-east Saskatchewan. Buffalo's strategy is to pursue oil and gas development opportunities in western Canada, possibly in partnership with other companies.

RESULTS OF OPERATIONS

For the year ended December 31, 2003, the Company reported net income of \$113,096 or \$0.02 per issued and outstanding common share, compared with a net loss of \$19,030 for the year ended December 31, 2002 (nil per share).

Production operations

The results of the Company's oil and gas operations at the field level are as follows:

	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>% Change</u>
Production (BOED)	75	64	11	17%
Oil and gas revenue	\$ 1,075,253	\$ 846,463	\$ 228,790	27%
Royalty expense	162,856	130,242	32,614	25%
Net revenue	912,397	716,221	196,176	27%
Production and operating costs	355,036	318,775	36,261	11%
Field netback	\$ 557,361	\$ 397,446	\$ 159,915	40%
<u>Per BOE basis</u>				
Average selling price	\$ 39.13	\$ 36.04	\$ 3.09	9%
Royalty expense	5.93	5.54	0.38	7%
Net revenue	33.20	30.49	2.71	9%
Production and operating costs	12.92	13.57	(0.65)	-5%
Field netback per BOE	\$ 20.28	\$ 16.92	\$ 3.36	20%

Average production for the year ended December 31 increased by 17% from 64 barrels of oil equivalent ("boe") per day ("boed") in 2002 to 75 boed in 2003. Net realized selling prices also strengthened by an average of 9% per boe, with the result that oil and gas revenue increased 28% to \$1,075,253 in 2003 from \$846,463 in 2002.

The bulk of Buffalo's production comes from its properties at Heward and Alameda, SK. At Heward, Buffalo has a 52% interest in three producing oil wells, an oil battery and a disposal well. Buffalo's net share of production from this property averaged 31 boed in 2003. At Alameda, Buffalo has varying interests in three oil batteries, eight producing oil wells and two disposal wells. Buffalo's net share of production from Alameda for 2003 averaged 22 boed.

Royalty expense increased 7% per boe, mainly reflecting the higher selling prices. As a percentage of gross revenue, the royalty expense decreased marginally from 16% in 2002 to 15% in 2003, mainly as a result of the low royalty rates applicable to the newly drilled horizontal wells. Buffalo reduced its production and operating costs per boe by 5% in 2003, reflecting the high level of start up costs of new production facilities in 2002.



Other

General and administrative expenses ("G&A") for 2003 were in line with 2002 at \$152,798. G&A includes \$9,828 of interest expense that was incurred on the bank operating line of credit. Also included in G&A is a non cash amount of \$20,000 in respect of stock based compensation. On June 26, 2003, the Company granted options to acquire 500,000 common shares at a price of \$0.05 per share. The options vested immediately and were exercisable for two years from that date. These options were determined to have a compensation value of \$20,000 using the Black-Scholes option pricing model, a risk free interest rate of 4%, no dividend payments and a volatility factor of 0.75.

Depletion, depreciation and amortization increased by 2% from \$264,314 in 2002 to \$270,467 in 2003. However, on a boe basis, depletion, depreciation and amortization decreased by 13% from \$11.25 per boe in 2002 to \$9.84 per boe in 2003. This decrease mainly reflects the application of the proceeds of sale of the Company's interest in the Steelman North property to reduce the asset value for depletion purposes.

In 2003, the Company recorded a future income tax expense of \$21,000 (2002 - \$4,000) to adjust the value of the future tax asset on the balance sheet. The future tax asset represents the value of future tax benefits to be derived from the difference between the tax and book values of Buffalo's net resource assets at current tax rates.

CAPITAL EXPENDITURES, ACQUISITIONS AND DISPOSITIONS

The Company participated in the drilling of one successful horizontal oil well at Midale in June 2003 (net 10.9% working interest). In addition, Buffalo farmed-out the drilling of another horizontal oil well in the first quarter 2003 and a vertical oil well in the fourth quarter of 2003, both at Midale, retaining a 5 – 15% gross overriding royalty until payout on both wells, at which time the GORR is convertible to a 17.6% working interest. In the fourth quarter, the Company increased its working interest in the Steelman 3-30-5-4W2 well to 58.3%. This well was then electrified and placed on production. Also in the fourth quarter, Buffalo acquired a 100% interest in a half section of crown land at Heward, implemented three phase power at the Heward 5-6 well and completed a workover on the Alameda 11-36 well.

In August 2003, Buffalo disposed of its interest in the Steelman North property for cash proceeds of \$200,000 and a royalty interest of 2% on all future production revenue from the property.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of liquidity are cash flows from oil and gas producing activities, bank borrowings and the proceeds of equity issues. The Company believes that these sources will be adequate to fund its current commitments and the ongoing capital expenditure program.

During 2003, the Company generated net cash flow from operating activities of \$422,910 (2002 - \$206,320). The 2003 net cash inflow, together with proceeds of \$200,000 from the sale of an oil and gas property, was largely used to fund the 2003 capital expenditure program in the amount of \$569,013.

At December 31, 2003, the Company had a working capital deficit of \$263,056 which included a \$95,000 bank operating line of credit (2002 – deficit of \$352,061). Subsequent to year-end, the bank has renewed this operating line of credit in the amount of \$400,000, with no repayment requirements before January 2005.

No shares were issued during the year and the Company has 7,113,090 common shares issued and outstanding at December 31, 2003 (2002 – 7,113,090). Stock options for 500,000 common shares were granted on June 26, 2003 at a price of \$0.05 per share. Prior to year-end, 100,000 of these stock options were forfeited.



COMMITMENTS AND CONTINGENCIES

The Company has an operating lease for its offices in Regina, Saskatchewan at \$1,358 per month which terminates on June 30, 2004. Subsequent to year-end, the Company agreed to pay severance to former officers of the Company in the amount of \$84,000, to be paid over 13 months beginning April 2004.

SUMMARY OF QUARTERLY RESULTS

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
<u>2003</u>					
Production (BOED)	70	78	83	70	75
Oil and gas revenue, net	\$ 242,866	\$ 205,475	\$ 221,747	\$ 242,309	\$ 912,397
Net income (loss)	49,914	7,465	11,390	44,327	113,096
Earnings (loss) per share	0.01	0.00	0.00	0.01	0.02
Capital expenditures, net	117,724	188,735	(70,062)	99,161	335,558
Net working capital surplus (deficit)	(326,956)	(439,721)	(292,194)	(263,056)	
<u>2002</u>					
Oil and gas revenue, net	\$ 137,850	\$ 172,390	\$ 178,829	\$ 227,152	\$ 716,221
Net income (loss)	3,149	12,470	8,214	(42,863)	(19,030)
Earnings (loss) per share	0.00	0.00	0.00	(0.01)	(0.00)
Capital expenditures, net	145,164	344,050	74,505	77,406	641,125
Net working capital surplus (deficit)	(272,372)	(567,030)	(369,217)	(352,061)	

RELATED PARTY TRANSACTIONS

Throughout 2003, the President and Secretary of the Company provided their services through their personal management company which invoiced Buffalo \$84,000 for such services (2002 - \$84,000).

CORPORATE OUTLOOK

In 2003, the Company increased its production of oil and gas, generated a healthy level of cash flow and strengthened its balance sheet. At December 31, 2003, the Company has \$1.7 million of available tax pools which can be used to facilitate the raising of equity share capital in the form of flow through shares, without placing the Company in an unfavourable current tax position.

On March 30, 2004, there was a change of management of Buffalo. William (Bill) A. Trickett was appointed Chief Executive Officer and Chairman of the Board of Directors, Edward W. Bogle was appointed as a Director and Trevor G. Penford was appointed President and Chief Financial Officer of the Company. The head office was relocated to Calgary, Alberta.

NEW ACCOUNTING PRONOUNCEMENTSStock based Compensation

The Company has adopted the recommendation of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 "Stock Based Compensation and Other Stock-Based Payments". This section was amended to require the expensing of all stock based compensation for fiscal years beginning after January 1, 2004. The Company has chosen to adopt the recommendation prospectively, thereby recording the value of the stock options granted since January 1, 2003 as an expense in the statement of operations and as contributed surplus, using the Black-Scholes option pricing model.



Full Cost Accounting

The CICA issued a new guideline "Oil and Gas Accounting - Full Cost" (AcG-16) for application in fiscal years beginning after January 1, 2004. The Company has adopted the recommendations of AcG-16 prospectively and applied them in its accounting policies for fiscal 2003.

Asset Retirement Obligations

The CICA has issued Handbook Section 3110 "Asset Retirement Obligations" for application to fiscal years beginning after January 1, 2004. The Company anticipates adopting this recommendation in the fiscal year beginning January 1, 2004. This recommendation replaces the previous method of accounting for site restoration costs on an accrual basis. The Company will adopt the new standard on a retroactive basis. Under the new standard, the liability for the fair value of environmental and site restoration obligations is recorded when the obligations are incurred, normally at the time that related assets are placed on production. The fair value of the obligations is based on the estimated cost to settle the obligations at the time of retirement of the assets, discounted using the Government of Canada Bond Rate for the applicable term to retirement, adjusted for the Company's credit rating. The fair value of the obligations is recorded as a liability and as an increase in the capitalized cost of the related asset. The amounts recorded as capitalized costs are depleted using the unit of production method. The liability is accreted for the increase in the fair value of the obligation due to the passing of time and the accretion expense is recorded as an operating cost.

BUSINESS RISKS

The Company's results are sensitive to actual realized levels of production as well as to commodity prices and exchange rates that can change significantly due to factors beyond its control. Many business risks are involved in the exploration, development, production and marketing of oil and natural gas including, but not limited to, the uncertainty of finding and producing petroleum and natural gas reserves. The oil and gas industry is extremely competitive and the Company competes against companies that have greater financial resources.



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Buffalo Oil Company Limited have been prepared by the Company's management in accordance with Canadian generally accepted accounting principles and necessarily include some amounts based on informed judgement and management estimates.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that the financial statements are accurate and reliable and that assets are safeguarded.

The board of directors has reviewed and approved these financial statements.

These financial statements have been examined by the independent auditors, **Virtus Group LLP**, and their report is presented separately.

Signed "T. G. Penford"

Trevor G. Penford
President & Chief Financial Officer

Signed "W. A. Trickett"

William A. Trickett
Chief Executive Officer



AUDITORS' REPORT

To the Shareholders,
Buffalo Oil Company Limited

We have audited the balance sheet of Buffalo Oil Company Limited as at December 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 11, 2003.

Regina, Saskatchewan

April 08, 2004

Signed "Virtus Group LLP"

Chartered Accountants



BALANCE SHEET
AS AT DECEMBER 31, 2003
 (with comparative figures for 2002)

ASSETS		2003	2002
Current assets			
Accounts receivable		\$ 167,890	\$ 208,081
Prepaid expenses		<u>27,693</u>	<u>31,337</u>
		195,583	239,418
Future income tax asset		10,000	31,000
Property and equipment (Note 4)		<u>1,748,977</u>	<u>1,677,017</u>
		<u>\$ 1,954,560</u>	<u>\$ 1,947,435</u>
LIABILITIES			
Current liabilities			
Bank indebtedness		\$ 85,646	\$ 137,998
Bank loan (Note 5)		95,000	130,000
Accounts payable and accrued liabilities		<u>277,993</u>	<u>323,481</u>
		458,639	591,479
Provision for site restoration		<u>58,011</u>	<u>51,142</u>
		<u>516,650</u>	<u>642,621</u>
SHAREHOLDERS' EQUITY			
Capital stock (Note 6)		1,104,293	1,104,293
Contributed surplus (Note 6)		20,000	-
Retained earnings		<u>313,617</u>	<u>200,521</u>
		<u>1,437,910</u>	<u>1,304,814</u>
		<u>\$ 1,954,560</u>	<u>\$ 1,947,435</u>

APPROVED BY THE BOARD:

Signed "W. A. Trickett" _____ **Director**Signed S. A. Newhouse" _____ **Director**

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)

	<u>2003</u>	<u>2002</u>
Revenue		
Oil sales	\$ 1,035,546	\$ 825,484
Gas sales	39,707	20,979
Less: Royalties	<u>(162,856)</u>	<u>(130,242)</u>
Net production revenue	<u>912,397</u>	<u>716,221</u>
Expenses		
Depletion, depreciation and site restoration	270,467	264,314
General and administrative	152,798	148,162
Operating costs	<u>355,036</u>	<u>318,775</u>
	<u>778,301</u>	<u>731,251</u>
Income (loss) before income taxes	134,096	(15,030)
Income taxes (Note 7)		
Future	<u>21,000</u>	<u>4,000</u>
Net income (loss)	113,096	(19,030)
Retained earnings - beginning of year	<u>200,521</u>	<u>219,551</u>
Retained earnings - end of year	<u><u>\$ 313,617</u></u>	<u><u>\$ 200,521</u></u>
Earnings (loss) per share		
Basic and diluted	<u><u>\$ 0.02</u></u>	<u><u>nil</u></u>



STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)

	<u>2003</u>	<u>2002</u>
Cash provided by (used in) operating activities:		
Net income (loss)	\$ 113,096	\$ (19,030)
Items not involving cash:		
- Depletion, depreciation and site restoration	270,467	264,314
- Accrued stock based compensation	20,000	-
- Future income taxes	21,000	4,000
	<u>424,563</u>	<u>249,284</u>
Non-cash operating working capital (Note 8)	(1,653)	(42,964)
	<u>422,910</u>	<u>206,320</u>
 Cash provided by (used in) investing activities:		
Proceeds from maturity of term deposit	-	400,000
Additions to property and equipment	(569,013)	(673,629)
Proceeds on disposal of property and equipment	233,455	32,504
	<u>(335,558)</u>	<u>(241,125)</u>
 Cash provided by (used in) financing activities:		
Repayment of bank loan	(35,000)	(140,000)
Repayment of obligation under capital lease	-	(15,506)
Capital stock issuance	-	40,000
	<u>(35,000)</u>	<u>(115,506)</u>
 Increase (decrease) in cash	52,352	(150,311)
 Cash position - beginning of year	<u>(137,998)</u>	<u>12,313</u>
 Cash position - end of year	<u><u>\$ (85,646)</u></u>	<u><u>\$ (137,998)</u></u>
 Supplemental cash flow information:		
Interest paid	<u><u>\$ 11,649</u></u>	<u><u>\$ 17,450</u></u>



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)**

1. Nature of Operations

The Company was incorporated under the Business Corporations Act of the Province of Saskatchewan. The Company is engaged in the business of oil and natural gas exploration, development, acquisition and production.

2. Summary of significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles which required management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. The financial statements reflect the following policies:

Oil and gas operations

Substantially all oil and gas activities are conducted jointly with others and these financial statements reflect the Company's proportionate interest in such activities.

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and development of petroleum and natural gas reserves are capitalized. Costs include acquisitions, geological and geophysical activities, carrying charges on non-producing properties, drilling both productive and non-productive wells, production equipment, and related overhead expenses. Gains or losses resulting from the disposition of properties are recognized only when the proven reserves for these properties are significant in relation to the Company's total reserves and would result in a significant change in the rate of amortization.

The costs capitalized together with estimated future capital costs associated with proven reserves, other than unevaluated property costs, are depleted using the unit-of-production method which is based on gross production and estimated proven oil and gas reserves as determined by the Company and independent engineers. The cost of significant investments in unevaluated properties is excluded from the depletion base. For the purposes of the depletion calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative selling prices.

The Company employs a ceiling test to determine the limitation on capitalized costs. Such costs are restricted to the value of future net revenues from estimated production of proven reserves based upon current or average prices and the cost of unproven properties. Future net revenues are calculated after deducting future removal and site restoration costs, general and administration expenses, financing costs and income taxes.

Depreciation of non-resource producing assets

Other equipment is recorded at cost less accumulated depreciation. Depreciation is provided over estimated useful life of the assets as follows:

Computer equipment	20 % annual declining balance
Computer software	5 years
Equipment	20 % annual declining balance



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)**

Provision for site restoration

Estimated future costs of restoring the Company's oil and gas properties are recognized on a unit-of-production basis and included with depletion expense. The cumulative amount, net of actual expenditures, is recorded as provision for site restoration costs.

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. For calculation of diluted per share amounts, 200,000 shares were added to the weighted average number of shares outstanding during the year.

Stock option plan

The Company has a stock option plan for the benefit of directors. Option exercise prices approximate the market price for the common shares on the date the options are issued. Options granted under the plan vest upon issue and expire one year after the grant date.

Stock based compensation expense is recognized in earnings with a corresponding amount being shown as contributed surplus.

The fair value of options granted is estimated using the Black-Scholes option pricing model. Factors used in the model include expected volatility, expected life, expected expiration rates, expected dividends, and risk-free interest rates. Consideration paid upon the exercise of the stock options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur, which result in reductions of compensation expense.

Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts and their tax bases. These amounts are measured using enacted tax rates (currently 39%) and re-measured annually for rate changes. Future income tax assets are recognized for the benefit of deductions available to be carried forward to future periods for tax purposes that are likely to be realized. Future income tax assets are re-assessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or re-assessment is recognized in the period of change.

3. Change in accounting policy

The Company has elected to adopt and apply prospectively the fair value method of accounting for stock based compensation and other stock based payments, as per amendments to the CICA Handbook section 3870. Prior years have not been restated.

The adoption of this new accounting standard for stock based compensation resulted in the Company recognizing an expense of \$20,000 on the options granted in 2003 with an equivalent amount being recorded as contributed surplus.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)**

4. Property and equipment

2003			
	Cost	Accumulated Depletion	Net Book Value
Computer equipment	\$ 13,531	\$ 9,987	\$ 3,544
Computer software	11,385	11,037	348
Equipment	17,736	12,422	5,314
Resource producing assets	3,319,651	1,579,879	1,739,772
	<u>\$ 3,362,303</u>	<u>\$ 1,613,325</u>	<u>\$ 1,748,978</u>
2002			
	Cost	Accumulated Depletion	Net Book Value
Computer equipment	\$ 12,683	\$ 9,101	\$ 3,582
Computer software	10,950	10,950	-
Equipment	17,736	11,094	6,642
Resource producing assets	2,985,375	1,318,582	1,666,793
	<u>\$ 3,014,061</u>	<u>\$ 1,349,727</u>	<u>\$ 1,677,017</u>

During the year, the Company capitalized general and administrative expenses of \$20,000 (2002 - \$20,000), which were directly related to the acquisition of oil and gas properties.

Resource producing assets includes costs related to unproven reserves of \$13,920 (2002 - \$22,479), which were not subject to depletion.

5. Bank credit facilities

The Company's bank operating credit facility to a maximum of \$400,000, which covers both the Company's bank indebtedness and the bank loan, bears interest at bank prime plus 1.5%. Payments are interest only until December 31, 2004, at which time principal payments of \$10,000 per month will commence. General assignment of all present and subsequently acquired property of the Company are pledged as security.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)**

6. Capital stock

Authorized:

- Unlimited Class "A" common shares

Issued:

	<u>2003</u>	<u>2002</u>
- 7,113,090 Class "A" shares (7,113,090 in 2002)	\$ 1,104,293	\$ 1,104,293

Outstanding at year end are director stock options granted in 2003 for 400,000 Class "A" shares. Options are exercisable at \$0.05 per share expiring June 25, 2005. During the year, director stock options granted in 2002 for 500,000 Class "A" shares, exercisable at \$0.10 per share expired

Included in general and administrative expense is \$20,000 for stock based compensation, with an equivalent amount credited to contributed surplus. This amount was determined using the Black-Scholes option pricing model, using a risk-free interest rate of 4%, expected life of 6 months, expected average volatility factor of 0.75, no forfeitures and no dividends.

7. Income taxes

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to income before income taxes. The difference relates to the following items:

	<u>2003</u>	<u>2002</u>
Expected expense (recovery)	\$ 52,000	\$ (6,000)
Non-deductible crown charges	35,000	29,000
Resource allowance	(47,000)	(20,000)
Other	(19,000)	1,000
	<u>\$ 21,000</u>	<u>\$ 4,000</u>

The future income tax asset is comprised mainly of the difference between the tax basis for resource producing assets and their net book value.

The tax basis of property and equipment is as follows:

	<u>2003</u>	<u>2002</u>
Canadian Exploration Expense	\$ 292,000	\$ 292,000
Canadian Development Expense	636,000	596,000
Canadian Oil and Gas Property Expense	291,000	370,000
Equipment	443,000	473,000
	<u>\$ 1,662,000</u>	<u>\$ 1,731,000</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
 (with comparative figures for the year ended December 31, 2002)

8. Non-cash operating working capital

Details of net change in each element of working capital relating to operations excluding cash are as follows:

	<u>2003</u>	<u>2002</u>
(Increase) decrease in current assets:		
Accounts receivable	\$ 40,191	\$ (27,594)
Prepaid expenses	3,644	(466)
	<u>43,835</u>	<u>(28,060)</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	<u>(45,488)</u>	<u>(14,904)</u>
	<u>\$ (1,653)</u>	<u>\$ (42,964)</u>

9. Financial Instruments

The Company's recognized financial instruments consist of accounts receivable and accounts payable and accrued liabilities. The fair value of these items approximate their carrying value given the short term nature of the amounts.

The Company's exposure to interest rate risk is limited to the revolving credit facility. The interest rate on this debt is variable; therefore, the Company may face increasing interest costs in an increasing interest rate market.

10. Credit risk

The Company is exposed to credit risk on accounts receivable. In order to reduce its credit risk, the Company has adopted credit policies, which include the analysis of the financial position of its customers and the regular review of their credit limits. The Company incurred insignificant bad debt expense during the past three years.

The Company does not have a significant exposure to any individual customer or counterpart. Its customers are mainly in the oil and gas industry.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(with comparative figures for the year ended December 31, 2002)**

11. Related party transactions

The Company incurred the following related party transactions for the year:

	<u>2003</u>	<u>2002</u>
General and administrative expense:		
- Petro-Tax Consulting , director's business	\$ 84,000	\$ 84,000

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation in the current year.



CORPORATE INFORMATION

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Robert F. Hammond, Guelph, Ontario
Dr. Edward W. Bogle, Calgary, Alberta
Shirley A. Newhouse, Regina, Saskatchewan

Officers

William (Bill) A. Trickett
Chief Executive Officer

Trevor G. Penford
President and Chief Financial Officer

Banker

Canadian Western Bank
Calgary, Alberta

Auditors

Virtus Group LLP
Regina, Saskatchewan

Legal Counsel

McCarthy Tétrault
Calgary, Alberta

Evaluation Engineers

Dobson Resource Management Ltd.
Calgary, Alberta

Stock Exchange Listing

TSX Venture Exchange
Symbol - "BOC"

Share Registrar and Transfer Agent

CIBC Mellon
600, 333 7th Avenue S.W.
Calgary, Alberta T2P 2Z1



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